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SUBJECT: TOLEDO'S STATE OF THE NATION SPEECH

SUMMARY

1. A confident President Alejandro Toledo delivered his annual State of the Nation speech on 7/28, in which he touted his administration's economic, political and social successes; emphasized that these accomplishments were achieved in conjunction with the Congress, political parties and the population; vowed to maintain fiscal discipline while expanding social assistance programs; rejected attempts by regional governments to enact their own coca legislation; called on all politicians and parties to conduct positive campaigns in the lead-up to the April 2006 elections; expressed support for electoral reform aimed at limiting the number of parties in the next Congress and strengthening parties' control over legislators; and challenged his potential successors to maintain and build upon his government's policies. In contrast to the past 3 years, Toledo projected the air of a confident leader who is in control. Unfortunately, the length of Toledo's speech (2:20) watered down its positive message, and the seemingly endless barrage of statistics opened the door to nit-picking criticism by opposition leaders and commentators, which have dominated media coverage of the address. End Summary.

ACCOMPLISHMENTS TO DATE

2. The President divided his speech into three parts: (1) a review of his government's accomplishments over the past four years; (2) a listing of its objectives and commitments for the coming year; and (3) a reflection on the 2006 election and the issues at stake. He particularly stressed his administration's economic achievements: 47 consecutive months of sustained growth; 25 percent cumulative growth; inflation below 2 percent; 75 percent increase in international monetary reserves; reduction of the fiscal deficit from 3.4 percent to 1.1 percent; and the doubling of exports, powered by new non-traditional agricultural products.

3. Toledo cited numerous statistics to demonstrate that this growth is trickling down to the poorest sectors, with those living in extreme poverty falling from 24.1 to 19.2 percent of the population, those living in poverty decreasing from 54.3 to 51.6 percent, and a 31 percent increase in food consumption by the poorest sectors over the past year alone. He also pointed out that much of this economic development is occurring outside of Lima, with 16 of 24 departments posting growth rates higher than the capital's and with rural poverty falling from 77.1 to 72.5 percent.

4. The President cited a wide array of social spending initiatives over the last four years that had brought benefits to many Peruvians. These included:

-The amount of paved roads has increased by 15 percent (a figure that will go up to 20 percent by the end of his term) thanks to an investment of approximately USD 130 million.

-Public sector salaries have gone up, including an 87 percent increase for teachers.

-Medical attention to the poor has doubled in rural areas.

-Ninety-five thousand new houses constructed for poor Peruvians in the last 4 years, a figure that should reach 110,000 by the end of Toledo's term.

-Working with the municipalities, the GOP has given out 346,000 land titles to Peruvians, including citizens in the Amazon, Cusco, and Madre de Dios regions.

5. Toledo mentioned several investment projects, some long awaited, that he considered cornerstones of his administration's export success. These included:

-The Camisea Gas Project, which had been in the planning stage for 22 years.

-Mining concessions in Bayovar in Piura and Las Bambas in Apurimac, both projects that had been planned, but never acted on, for decades. Together, the projects represented

USD one billion in investment, the President said.

16. Toledo emphasized the administration's program of decentralization, including the imminent transfer, by means of a Presidential Decree, of 28 more Ministerial duties to Regional Governments.

17. The President stressed his achievements in foreign affairs, citing the following:

- The recognition Peru received as recent President of the Andean Community and as President of the newly formed South American Community of Nations.

- Peru's recent election to represent Latin America and the Caribbean in talks with the European Union.

- The GOP's success in forging strategic and economic partnerships with Brazil (the Inter-Oceanic Highway), China (Peru's recent designation as a high priority tourist destination), and the United States. In this last connection, the President mentioned the eleven negotiating rounds that Peru has undertaken with the U.S. on the FTA and acknowledged the important contribution ATPDEA has made to Peru's economic development and export diversification.

----- OBJECTIVES AND COMMITMENTS -----

18. The President mentioned commitments and initiatives for his administration in his final year in office, including:

- The creation of two new Ministries, dedicated to Tourism and Culture.

- The establishment of Camisea II, an additional gas export project.

- The construction of an inter-oceanic highway connecting Peru and Brazil, giving the latter country direct access to the Pacific through Peru.

- The elaboration of a scheme of subsidies for the poorest Peruvians under the rubric of the plan &Together8 (Juntos), which would begin in September in the regions of Chuschi and Ayacucho. This would include approximately USD 40 million for housing, health, computers, subsidized nutrition and a variety of other aid initiatives that will help 1,200 poor families.

- The investment of USD 30 million in a program of collective reparations for the populations that suffered most from the violence of the 1980s and 1990s as well as a promise that the GOP would study the possibility of offering individual reparations for victims.

19. In addition, the President described a number of secondary initiatives, including: a new law for public school teachers that would emphasize meritocracy; additional road building projects, an initiative to commit ministries to create more decentralized, regional offices; natural gas projects for Junin and Ayacucho; the construction of a new National Library; a program to enable teachers, police and others to buy low-cost computers; and the elaboration of a National Plan for Human Rights.

----- AUTHORITY AND GOVERNABILITY -----

10. Toledo made several announcements to reinforce the GOP's authority and answer citizen concerns about security and corruption, including:

- A promise that those who block roads will be punished.

- A demand that regional governments respect the limits of their authority and not seek to legislate on national matters. (Note: This was a clear reference to recent attempts by the Regional Governments of Cusco and Huanuco to legalize coca cultivation. End Note.)

- The creation of three new Anti-Corruption Courts in the Superior Court of Lima. Toledo said that the GOP would finance the new courts, but that their effectiveness would depend upon the willingness of the Justice Sector to act more swiftly and decisively "prioritizing the most serious cases," including those involving financial crimes, human rights, arms and narcotics trafficking, and avoiding "both the dispersion of efforts and the creation of spectacles."

- A project to guarantee Citizen Security that will see the construction of four new police training schools. In addition, the President also mentioned the construction of two new, higher security prisons so that criminals can not use incarceration as a base from which to plan crimes.

SETTING THE AGENDA FOR THE FUTURE

11. The President urged several measures to promote future stability upon his political audience. In particular, he asked that:

-the basic macroeconomic model based on fiscal responsibility not be changed. Peru cannot reinvent itself, every five years and expect to progress, the President explained, adding that both the next President and the next Congress must resist the temptations of short-term populism if sustainable growth is to continue.

-in order to avoid political fragmentation in the next legislature, the Congress revise the electoral law to provide that only parties that obtain a minimum of five percent of the vote nationwide can elect a member of Congress. The President also urged the Congress to eliminate the current system of preferential voting (which allows voters, rather than parties, to rank the candidates on party lists).

-all political actors agree to run clean campaigns, free of calumny and excessively divisive rhetoric.

-the next Congress be given constituent assembly powers to reform the constitution during its first year.

-the next government commit to continuing the achievements of his administration, including further increases in exports, tourism, teachers salaries, a continued commitment to decentralization, and ongoing leadership in the South American Community of Nations.

WITH MALICE TOWARD NONE

12. In mentioning all of the above, often in exhausting detail, Toledo's language was consistently generous and inclusive. In a clear and repeated attempt to spread credit and promote civility, the President employed the refrain, "We have accomplished this together" as he cited the statistics that defined his administration's successes. Unfortunately, this generous message seemed lost on the congressional audience, which included a few audible hecklers during the last quarter of the President's address.

THE OPPOSITION PILES ON

13. Press and public figures were quick to criticize the President's speech. Lima daily La Republica ran a front-page headline that accused the president of celebrating the fact that 50 percent of Peruvians were poor. (The President mentioned repeatedly that the number of Peruvians in extreme poverty had dropped.) Opposition APRA party leader Alan Garcia said that Toledo had cited positive overall national statistics, but had omitted other themes, including traditional agriculture and labor rights, and that the President's new initiatives threatened a spurt of irresponsible spending. Toledo's Vice President, David Waisman, joined in the critical chorus, stating that the President might have offered more of a mea culpa for problems in his administration. He said the state should use its regulatory power to lower the costs of electricity, telephone and fuels, adding that he opposed the creation of new Ministries for Tourism and Culture.

Comment:

14. Toledo's confidence in touting his administration's economic successes seemed to get under his opponents' collective skin. The press largely ignored the President's attempts to share credit for macroeconomic stability and consequent growth and, along with opposition political figures, instead took him to task for excessive optimism as well as nit-picked on the validity of isolated growth/employment figures. (This says a lot, unfortunately, about the state of the President's relations with the media.) Despite the criticisms, Toledo's speech emphasized what the vast majority of political actors recognize, that sound economic management combined with high raw materials prices and increased access to the U.S. market have given Peru almost four years of solid growth resulting in highly positive economic numbers for the GOP. It is unlikely that any but the most extreme successors to the President would want to kill the goose that has laid this golden egg.
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